

Message Text

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FM USDEL MTN GENEVA

TO SECSTATE WASHDC 67

INFO AMEMBASSY OTTAWA

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

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PASS STR

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TAGS: ETRD, GATT

SUBJ: MTN: TARIFF NEGOTIATIONS

REF: MTN GENEVA 2479

1. SUMMARY: EC AND CANADA ARE EXPECTED TO PROPOSE SPECIFIC TARIFF NEGOTIATION FORMULAE AT NEXT MEETING OF TARIFFS GROUP MAY 13. DELEGATIONS ARE ALSO EXPECTED TO FOCUS ON SEVERAL OF THE ELEMENTS OF A FORMULA AND CONTINUE EFFORTS TO AGREE ON THOSE ELEMENTS OR A LEAST NARROW RANGE OF DIFFERENCES. LDC'S WILL ALSO EXPECT DC'S TO BEGIN TO RESPOND TO LDC'S DEMANDS FOR SPEICAL AND MORE FAVORABLE TREATMENT. WHILE OTHER DELEGATIONS RECOGNIZE U.S. NEED TO CONSULT WITH PRIVATE SECTOR AND CONGRESS

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BEFORE TAKING DEFINITVE POSIONS, U.S. WILL NEVERT E-

LESS NEED TO COMMENT ON ISSUES BEFORE THE GROUP.

2. AS NOTED IN MTN/TAR/1 DATED 24 MARCH 1975, MTN TARIFFS GROUP WILL MEET MAY 13-16 TO DISCUSS QUOTE (A) POSSIBLE ELEMENTS OF AN APPROPRIATE TARIFF NEGOTIATING FORMULA OF AS GENERAL AN APPLICATION AS POSSIBLE, WHICH WOULD TAKE INTO ACCOUNT, INTER ALIA, THE INTERESTS OF DEVELOPING COUNTRIES; (B) IMPROVEMENT OF THE GENERALIZED SYSTEM OF PREFERENCES UNQUOTE. IT UNDERSTOOD THAT DELS COULD DISCUSS MATTER OF RELATIONSHIP BETWEEN TARIFF NEGOTIATIONS AND PARTICULAR NONTARIFF MEASURES. GROUP WILL ALSO DISCUSS BASE RATES/BASE DATE FOR UNBOUND ITEMS, QUESTION OF UNIT OF REFERENCE (UNIT OF ACCOUNT) FOR TRADE VALUES, AND MORE GENERAL QUESTION OF NEED TO GIVE DEVELOPING COUNTRIES SPECIAL AND MORE FAVORABLE TREATMENT IN THE MTN, WHERE REASIBLE AND APPROPRIATE.

3. WE HAVE DISCUSSED SEPARATELY WITH EC, CANADIAN AND JAPANESE DELEGATIONS ELEMENTS OF AND POSSIBLE SECENARIO FOR NEXT MEETING OF TARIFFS GROUP AND WILL DISCUSS QUESTION WITH COLLIANDER (SWEDEN, SPEAKS FOR NORDICS ON TARIFFS) WHEN HE RETURNS TO GENEVA. FOLLOWING IS SUMMARY OF THOSE DISCUSSIONS:

A. GENERAL TARIFF REDUCTION FORMULA:

AS NOTED REFTEL, EC PLANS TO PROPOSE ONE OR MORE GENERAL TARIFF REDUCTION FORMULAE AT NEXT MEETING. EC PRESENTLY TENDS TO FAVOR $Y = X$ FORMULA (Y IS PERCENTAGE TARIFF REDUCTION, X IS INITIAL TARIFF RATE FOR EACH TARIFF LINE ITEM) ITERATED 3 TIMES. IT MAY ALSO PROPOSE OTHER HARMONIZATION FORMULAE FOR PURPOSES OF DISCUSSION. CANADA WELO FORMULA AS PROPOSED IARCH MEETING OF TARIFF GROUP: (1) REDUCE RATES BELOW 5 PERCENT TO ZERO AND RATES OVER 20 PERCENTDP PERCENT WIT HOUT REUIRE MULTILATERAL AGREEMTNT; (2) REDUCE DUTIES BETWEEN 5 AND 20 PERCENT AD VALOREM BY UNIFORM 50 TO 60 PERCENT. AS ALTERNATIVES, ALL RATES ABOVE 5 PERCENT COULD BE CUT 50 TO 60 PERCENT OR SOME MATHERMATICAL FORMULA FOR PROGRESSIVE CUTS MIGHT BE LIMITED OFFICIAL USE

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ESTABLISHED. CANADA WILL STRESS THAT THIS AND OTHER PROPOSALS IT MAY MAKE ARE BEING ADVANCED ON A PERSONAL BASIS BY CANADIAN DELEGATION WITHOUT NECESSARILY COMMITTING ITS GOVERNMENT TO ANY PARTICULAR FORMULA. IT PLANS A QUOTE FULL SCALE ATTACT UNQUOTE ON TARIFF HARMONIZATION WHICH IT CONSIDERS A POLITICAL CONCEPT WHICH IS ECONOMICALLY INDEFENSIBLE. JAPAN DEL IS VERY RELUCTANT TO DISCUSS ITS WORK ON FORMULA, ALTHOUGH IT CLEAR TO US THAT IT

DOES NOT FAVOR EITHER OF THE TWO FORMULA WHICH IT PROPOSED FOR DISCUSSION PURPOSES IN THE CTIP TWO YEARS AGO (THE "TADPOLE" APPROACH AND PROGRESSIVELY DEEPTER CUTS APPLIED ON HIGHER TARIFFS IN STAGES). IT APPEARS TO FAVOR A $Y = AX + B$ FORMULA (DEPTH OF CUT WOULD BE EQUAL TO A FIXED PERCENTAGE OF TARIFFS ON EACH ITEM PLUS A LINEAR ELEMENT). HOWEVER, JAPAN WILL PROBABLY NOT PROPOSE A FORMULA AT THE MAY MEETING BUT WILL REACT TO OTHERS' PROPOSALS. SWEDEN, NORWAY, AUSTRIA AND SWITZERLAND ARE EXPECTED TO CONTINUE THEIR SUPPORT FOR A HARMONIZATION APPROACH.

B. FLOOR/THRESHOLD

EC CLEARLY FAVORS A TARIFF FLOOR/THRESHOLD OF AROUND 5 PERCENT, ALTHOUGH IT RECOGNIZES THAT SOME HARMONIZATION FORMULAE SUCH AS $Y = X$ PRODUCES SUCH SMALL CUTS ON LOW TARIFFS THAT FLOOR BECOMES LARGELY IRRELEVANT. THERE APPEARS TO BE GROWING INTEREST IN JAPAN IN A SIMILAR FLOOR, REFLECTING INCREASED CONCERN BY JAPANESE INDUSTRY OVER TARIFF ELIMINATION. CANADA INDICATES IT WILL ACTIVELY OPPOSE FLOOR CONCEPT. MOST LDC'S IN MARCH MEETING FAVORED FLOOR AS MEANS OF PRESERVING GSP MARGINS OF PREFERENCES, ALTHOUGH YUGOSLAVIA AND INDIA OPPOSED FLOOR.

C. CEILING

BOTH EC AND CANADA FAVORED A FORMULA WHICH WOULD LEAVE DUTIES AFTER IMPLEMENTATION OF NEGOTIATION RESULTS NO HIGHER THAN 20 PERCENT AD VALOREM. JAPAN DOES NOT APPEAR TO HAVE DEVELOPED ITS VIEWS THIS QUESTION.

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H-02 INR-07 INT-05 L-02 LAB-04 NSAE-00 NSC-05 PA-01

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D. EXCEPTIONS:

JAPAN, EC AND CANADA WOULD LIKE TO BEGIN TO DISCUSS AT NEXT MEETING PROCEDURES FOR EXCEPTIONS. CANADA BELIEVES PROCEEDURES SHOULD INCLUDE PROVISION THAT IF LARGE COUNTRIES EXCEPT ITEMS, OTHERS SHOULD BE ALLOWED TO EXCEPT SAME ITEMS WITHOUT HAVING IT COUNT AGAINST THEM AND SHOULD NOT BE REQUIRED TO CUT TARIFFS BELOW RATES ON SAME ITEM IN U.S., EC AND JAPAN TARIFF SCHEDULES.

E. PRODUCT COVERAGE:

EC AND JAPAN BELIEVE TARIFF FORMULA SHOULD NOT APPLY TO AGRICULTURAL PRODUCTS. (IN AGRICULTURAL CGROUP, JAPAN STATED THAT WITH REGARD TO SUCH PRODUCTS, KENNEDY ROUND PRECEDENT SHOULD BE FOLLOWED). SWISS LIMITED OFFICIAL USE

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AND NORDICS ALSO APPEAR SHARE THOSE VIEWS. AUSTRALIA, CANADA, NEW ZELAND AND MANY LDC'S BELIEVE FORMULA SHOULD APPLY TO AGRICULTURAL PRODUCTS BUT OF THOSE ONLY CANADA APPEARS WILLING APPLY FORMULA TO ITS OWN TARIFF SCHEDULE.

F. ANALYSIS OF FORMULAE:

MOST DELEGATIONS RECOGNIZE THAT SOME FORM OF JOINT ANALYSIS OF FORMULAE PROPOSED WILL HAVE TO BE CONDUCTED BY SECRETARIAT UNDER DIRECTION OF TARIFFS

GROUP BUT DO NOT FAVOR ANY ANALYSIS WHICH WOULD ATTEMPT TO MEASURE RECIPROCITY. LDC'S STRONGLY FAVOR ANALYSIS OF FORMULAE PRIMARILY FOR PURPOSE MEASURING EROSION OF GSP BENEFITS. EC AND POSSIBLY JAPAN FAVOR ESTABLISHMENT OF "TECHNICAL SUBGROUP" ON TARIFF NEGOTIATING FORMULA WHICH IN FACT WOULD BE PRINCIPAL BODY FOR DEVELOPING AGREEMENT ON FORMULA. EC BELIEVES UNWIELDLY SIZE OF TARIFFS GROUP MAKES IT IMPOSSIBLE FOR DEVELOPED COUNTRIES TO HAVE A TRUE DIALOGUE ON THIS QUESTION AND BELIEVES THAT LABELLING SUBGROUP AS TECHNICAL WOULD DISCOURAGE MANY COUNTRIES FROM ATTENDING MEETING.

G. MILESTONES:

JAPAN STILL HOPES THAT GROUP WILL BE ABLE TO AGREE ON GENERAL TARIFF FORMULA BEFORE NEXT TNC MEETING (TENTATIVELY SCHEDULED JULY 15) BUT IS OBVIOUSLY DOING LITTLE TO ACHIEVE THIS. EC AND TO LESSER EXTENT CANADA DO NOT APPEAR ANXIOUS TO REACH AGREEMENT IN GROUP BY THAT TIME. OTHER DELEGATIONS APPEAR HOLD SIMILAR VIEW.

H. UNIT OF REFERENCE:

EC HAS GIVEN SECRETARIAT FOR DISTRIBUTION A PAPER IN FRENCH ON THIS QUESTION BUT WANTS EC COMMISSION BRUSSELS TO PREPARE ENGLISH TRANSLATION BEFORE PAPER IS DISTRIBUTED. WE UNDERSTAND THAT PAPER SHEDS NO MORE LIGHT ON THIS ISSUE THAN PREVIOUS EC STATEMENTS. NO OTHER DELEGATION APPEARS TO BE CONCERNED ABOUT THIS ISSUE.

I. STAGING OF CUTS:

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THIS QUESTION HAS BEGUN TO BE DISCUSSED AMONG DELEGATIONS. OTHERS BELIEVE U.S. STATUTORY LIMITATIONS MAY WELL DETERMINE PARAMETERS OF STAGING IN MTN. JAPAN WOULD PREFER TO BEGIN DISCUSSING ISSUE IN NEXT TARIFF GROUP MEETING WHILE CANADA PREFERS TO DISCUSS IT LATER ON.

J. IMPROVEMENT OF GSP/TREATMENT OF LDC'S:

MOST DEVELOPED COUNTRY DELEGATIONS BELIEVE THAT THEY CANNOT GO MUCH BEYOND WHAT THEY SAID IN MARCH MEETING OF THIS ISSUE BUT RECOGNIZE THAT LDC'S WILL FORCE THEM TO COME TO GRIPS WITH ISSUE IN THE NEAR FUTURE. SOME BELIEVE THAT DEVELOPED COUNTRIES SHOULD NOW BEGIN TO DEFINE AREA WHERE POSSIBILITIES EXIST FOR IMPROVEMENT FOR GSP AND AREAS WHERE IT IS NOT POSSIBLE TO IMPROVE GSP AS WELL AS WAYS GIVE LDC'S SPECIAL AND MORE FAVORABLE TREATMENT, WHERE FEASIBLE AND APPROPRIATE. AMONG DC'S

ONLY U.S. AND JAPAN MENTIONED IN LAST MEETING NEED FOR SOME FORM OF RECIPROCITY FROM LDC'S, ALTHOUGH SEVERAL MORE ADVANCED LDC'S STATED INTENTIONS TO OFFER SOME TARIFF CONCESSIONS.

K. BASE RATES:DATE:

TARIFF GROUP AGREED IN MARCH MEETING THAT FOR BOUND RATES, THE GATT BOUND RATES SHOULD BE THE BASE RATES; BASE DATES ARE IRRELEVANT FOR BOUND ITEMS. IT AGREED RETURN TO QUESTION OF UNBOUND RATES AT NEXT MEETING. EC (PRESUMABLY JOINED BY U.S.) IS EXPECTED AGAIN PROPOSE THAT RATES APPLIED AS OF 1 JANUARY 1974 FOR UNBOUND ITEMS, AS OPPOSED TO LEGAL RATES, BE AGREED AS BASE RATES/DATE. OTHER COUNTRIES ARE NOT EXPECTED CHANGE POSITIONS TAKEN IN LAST MEETING (REPORTED MTN GENEVA 2066).

4. COMMENT: SINCE OTHER DELEGATIONS ARE DEVELOPING VIEWS ON ISSUES FOR NEXT MEETING AND THESE ISSUES ARE BEING NARROWED, UNLESS U.S. POSITIONS OR AT LEAST DIRECTION OF THOSE POSITIONS ARE DETERMINED SOON, IT WILL BE DIFFICULT TO INFLUENCE THINKING OF OTHER DELEGATIONS LATER ON. OTHER DELEGATIONS RECOGNIZE NEED FOR U.S. TO CONSULT WITH PRIVATE SECTOR AND CONGRESS BUT HOPE LIMITED OFFICIAL USE

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FURTHER PROGRESS IN AGREEING ON ISSUES CAN BE MADE AT MAY MEETING. WE BELIEVE WORK OF GROUP AND U.S. INTERESTS COULD BE FURTHERED BY U.S. PROPOSALS FOR EXAMINATION OF SEVERAL ALTERNATIVE GENERAL TARIFF REDUCTION FORMULAE WITHOUT COMMITMENT TO ANY OF THEM. A MORE USEFUL DIALOGUE ON A FORMULA AMONG MOST INTERESTED COUNTRIES COULD THEN BE HELD IN A SMALLER QUOTE TECHNICAL SUBGROUP UNQUOTE.

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